# CASE STUDY 1
# MID-MARKET CONGOLMERATE BUILT BY ACQUISITION

## SITUATION

'I feel like I am in Vegas 24/7!' were the words the CEO said to me when he started our first meeting. During the meeting I discovered the following information about the company.

It started as a $65 million fast food chain that owned and managed several commercial properties. The owners decided to grow the company by acquiring other businesses and purchased 4 different family owned construction businesses. These companies worked on projects for the major utilities to dig and lay pipe and wire for gas, water, electric and telephone utilities. The company had now gone from making $12 pizzas to managing multi-million dollar projects all over Southern California. The company now had revenue in excess of $300 million.

Each company still operated independently using their own systems, processes, procedures and personnel. This created an environment in which the owners of the parent company were unable to obtain financial information in a timely manner. Some of the management issues they faced were:

- Financial reports were not available for up to 45 days after the end of the period
- Receivable invoices were delayed 30 to 60 days after a billable milestone was met on a project
- Bank line of credit was required to fund the company's cash flow
- Cash Management was challenging as the CFO did not know what committed liabilities existed from uninvoiced purchases
- Accounts Payable always needed to contact vendors to obtain invoices to bill customers on the cost plus contracts
- Reporting by job was very difficult and inaccurate, management rarely knew the profitability status of a project at any given time
- Financial reports were generated on different systems in different formats which made if very difficult to compare and consolidate
- Each company had own business processes and backoffice departments (AP, AR & Payroll), which added to confusion and cost.

Some of the technology issues they faced were:

- Multiple accounting systems needed to be supported
- Accounting system support was provided by outsourced firms that were not always available
- At least one of the outsourced support firms was a single person company with no backup

**CASE STUDY 1**
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- Each company had own servers and email hosting making intercompany email and intercompany connectivity difficult
- Response time was very poor even though the company paid for enormous bandwidth because of the method of connecting the different servers in the different locations
- Majority of Information Technology staff were hardware support personnel

The company was careening out of control.

**SOLUTION**

LJR Consulting Services (LJRCS) was asked to perform an evaluation and create a 3-year strategy to consolidate the companies on a standard technology platform. LJRCS addressed 3 primary areas:

- Technology infrastructure
- Systems & Processes
- Information Technology Department

<u>Technology Infrastructure</u>

This was a key problem area, as the company had servers in every location that were connected via VPN (Virtual Private Network). This connectivity was very slow and caused the company to require large amounts of bandwidth that was very expensive. It was like building freeways 10 lanes wide because cars and trucks needed to be fitted with extra equipment front and back making them twice as large. As a result the freeway could carry less vehicles per mile and more lanes were required to keep the traffic flowing.
They also experienced greater utilization of processing on servers because of the time required to process data as it traveled from one server to the other. Also, since each company had own servers for email, print service and applications, no economies of scale could be obtained for the computer hardware.

In order to address the problems the company was experiencing LJRCS determined the best approach was to build a consolidated data center in either the corporate location or an offsite location. This would enable the company to create a secure wide area network (WAN) for all locations. This would provide the following benefits

- reduce the amount of bandwidth required to support inter-company communications

- provide opportunity to consolidate servers
- consolidate email hosting
- efficiently utilize disk space
- reduce infrastructure costs
- reduce infrastructure support costs
- better secure the corporate information.

<u>Systems and Processes</u>

LJRCS reviewed the business applications used by each company and business processes in each organization and identified the following issues

- Majority of issues in AP and the inability to have accurate costs on each job was the result of not using Purchase Order and Receipt process
- Inconsistent use of Job Management systems created difficulty in generating financial reports on each construction job
- Manual processes used to gather financial information resulted in the lengthy time required to generate monthly financial statements
- Manual processes used to gather payroll, equipment rental costs and materials costs on each job created delay in customer invoicing and financial reporting
- Different accounting systems and reporting used made it almost impossible to have any consolidated financial reporting

LJRCS made the following recommendations and created a 3 year implementation plan.

- defined system requirements for all companies and recommended a single system to be used by all companies
- researched and located a larger software support company to provide application support to the company
- recommended the company train a small internal staff to support the financial system
- recommended the company implement purchase order and receipt processes in the field
- recommended the company develop web-based applications to collect information regarding employee hours per project and equipment rental costs
- recommended the company standardize and consolidate back office operations into a single AP, AR, Payroll and finance staff
- recommended the company standardize the project estimating process and implement a system to manage job quotes.

# CASE STUDY 1
# MID-MARKET CONGOLMERATE BUILT BY ACQUISITION

Information Technology Department

LJRCS reviewed the staff assigned to the information technology department. Since the company was a consolidation of 5 smaller businesses, the IT department was also a collection of IT employees from all the companies. As a result there was no real department and each support person continued to support their original company users. There was one corporate level manager responsible for connecting all the locations and coordinating all spend requests.

The IT department did not have a budget or any type of plan on how to support the company into the future. The corporate IT manager could only react to problems that occurred on a daily basis. As a result executives spent inordinate amounts of time making decisions regarding spending or infrastructure and support. They felt that IT was a constant drain on finances.

LJRCS recommended the following:

- Hire a full-time CIO to
  - Create a single department to support all functions for all companies
  - Create an annual IT plan and budget
  - Maintain the IT strategy created by LJRCS
  - Manage all outsourced vendors
  - Negotiate all IT contracts
- Define a standard hardware/software footprint for laptops, workstations and servers
- Build a team consisting of application support staff, user analysts, and hardware support staff

The LJRCS team defined the job descriptions for IT personnel and interviewed and hired the CIO.

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# CASE STUDY 1
# MID-MARKET CONGOLMERATE BUILT BY ACQUISITION

**BENEFITS**

By implementing the LJRCS recommendations the company would regain control of the company. All corporate information would be securely maintained in centralized location. The IT budget and plan provided a roadmap so there would be no surprise expenditures. The consolidation of systems, processes and personnel would reduce cost, improve communication and provide timely financial information to manage projects and the growing company.
They would also reduce the dependence on working capital credit lines by improving cash flow through timely billing.

The CEO could limit his gambling to recreation.

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